



**STATE BOARD OF EQUALIZATION**

1020 N STREET, SACRAMENTO, CALIFORNIA  
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February 5, 1990

Mr. K--- E. Y---  
L---, P--- & Co.  
P.O. Box XXXXX  
--- ---, TX XXXXX

I---, Inc.  
SS --- XX-XXXXXX

Dear Mr. Y---:

This is in reply to your November 14, 1989 letter regarding the application of sales and use tax to charges for compact discs.

We understand that I---, Inc., produces and sells compact discs which are produced for use as radio commercials. You asked for written advice from this Board on which I--- can reply [sic] for purposes of Revenue and Taxation Code section 6596.

Sales and Use Tax Regulation 1527, Sound Recording, provides that the measure of tax with respect to the retail sale of master tapes or master records embodying sound is limited to the sale price of the unprocessed recording media. The measure of tax does not include charges for labor and recording sound, services rendered in producing, fabricating, processing or imprinting the master tapes, any other services or production expenses or amounts paid for the copyrightable, artistic, or intangible elements of such master tapes or records, whether designated as royalties or otherwise. Tax applies to subsequent retail sales of master records and tapes in the same manner as tax applies to the original retail sale.

Subdivision (b)(1) of Regulation 1527 defines "master tapes and master records embodying sound" to mean tapes, records, and other devices, not including mothers, stampers, or finished records, utilized by the recording industry in making recordings embodying sound. The term includes tapes or records which are produced for use as radio commercials or other advertising, syndicated radio programs or for educational purposes. It is our opinion that, if I---, Inc., produces and sells compact discs to be used as radio commercials, the taxable measure with respect to the retail sale of such compact discs is limited to the sale price of the unprocessed recording media (compact discs).

Mr. K--- E. Y---

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We hope this answers your questions; however, if you need further information, feel free to write again. In such case, please provide a description of the transactions involved.

Very truly yours,

Ronald L. Dick  
Tax Counsel

RLD:sr